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KEG RESTAURANTS LTD.





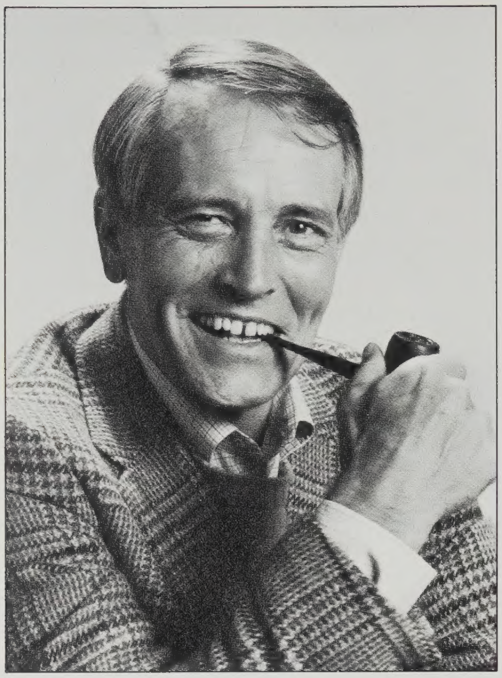


ANNUAL REPORT 1983

On the Cover

Our people, more than 5,000 of them in the Keg Family of Restaurants, are the real reason for The Keg's success. We salute them all — spirited, dedicated professionals. It is their commitment that allows us to add a strong guarantee to the food, good times and value we offer. Photographer Greg Athans shot the pictures on the cover — people at work in our restaurants and bars, on Saturday, March 31st, 1984.

President's Report to the Shareholders



1984 - Here we come!
A company can be partially understood through its numbers – like balance sheets and income statements. This year, to improve that understanding, we have included more detail in a separate financial review.

The real definition of a company, however, must relate to its customer needs and how the people in the company are meeting these needs. My purpose in this report is to provide a sense of where the Keg is now and how it is evolving and adapting to meet a changing environment.

What a difference a year can make!
Obviously, the most significant change in 1983 arose through the two acquisitions that we completed. We started the year with 60 Kegs, 10 Spaghetti Factories and 10 bars for a total of 80 restaurants. With the acquisition we end up with 89 potential Kegs, nine Spaghetti Factories and 16 bars for a total of 114 restaurants plus 38 A & W's and 11 other food operations for a total of 163.

Doubling our number of outlets, even though some have or will be sold, has had a major impact on all of us.

The acquisitions mean that our strategy of gaining a broader base in Ontario, where the awareness levels and market share were lower relative to the rest of the country, was fulfilled in one fell swoop. In essence, we took Ontario, which had 10 Kegs, to a position where we now have a potential 31 Kegs and seven associated bars. It means that we can economically provide a strong regional support service to all of these restaurants and can also stimulate demand through media marketing that will impact not only on new restaurants but on the existing ones.

In addition, in 1983 we adequately demonstrated the validity of two new Keg extensions, one, which offers a wide range of lower-priced menu entrees coupled with the Keg 'good times', and our seafood specialty house which features a broad array of fresh seafood each day.

Yes, one year can make a great difference and we feel strongly that we are on the threshold of a new era.

A positive feeling about direction.
During 1983 and into 1984 we also took a number of steps that we feel are significant in terms of the direction of the quality products the Keg is offering.

Our great pride, of course, lies in our steaks and we took some additional steps to add to the Great Steakhouse image. We completed the installation of mesquite wood broilers in all Kegs; and we commenced importing San Francisco sourdough bread which we bake fresh in every Keg across the land. Two examples of our commitment to excellence and improving what we already do superbly.

In addition, we made a commitment to add more seafood items to our Keg menus. Not an easy task in Canada, given the fact that quality product is not readily available throughout the country. But, because of our commitment, we have begun the process of organizing our own purchasing, transportation and distribution of outstanding quality seafood to every Keg. And, believe me, salmon or halibut or a variety of other fish specialties cooked over mesquite charcoal are truly an outstanding addition to the Keg.

We also found in 1983 that a growing number of our customers were coming to the Keg, enjoying the good times, but substituting an appetizer, or an appetizer and salad bar, for an entree. Subsequent research indicated that as many as 20% of our customers wanted to participate in the evening experience but either their pocketbook or their stomach did not dictate having a steak. As a result, we have begun the process of introducing items that can be called: "More than an appetizer but less than a meal"; or what we call in our advertising "Keg Delightfuls". In test markets where we have introduced the new menu items, we are achieving some 12% in incremental sales and will be shortly adding these items to all menus across the country.

Finally, in our Old Spaghetti Factory houses, we made the commitment to introducing fresh pasta made on the premises daily. In each of our locations this fresh pasta plus the addition of more adult-oriented Italian food items represents a major commitment to the continuing improvement of quality in the Old Spaghetti Factories.

In addition to the evolution of our quality products, we have also received a significant commitment from our people within the company relative to guaranteeing what we offer to each and every customer. Our guarantee simply is, "Every Keg restaurant guarantees the complete satisfaction of every guest. Food – as you expect it – or we'll replace it. The Good Times – a reflection of the Spirit that flows from our people – and value in the total Keg Experience, it's all there or we'll make it right. So, come for the food, stay for the Good Times, and you'll be back for the value. We guarantee it!"

Obviously, I cannot make a guarantee alone. In essence, every person in every restaurant has to fulfill this guarantee. Our cover this year pays tribute to these people who make this commitment to every customer every evening.

While it should not seem surprising, I was impressed and amazed at how positive our people were to the guarantee. As one waiter said: "We are professionals in surrounding basic, good food with a good time. We know the difference between this and our own enjoyment on the job. Thus, providing the guarantee is something that we have always done."

It is this commitment to quality at the Keg that gives me such a positive feeling about the direction we are heading.

A new marketing strength.

In addition to feeling strongly about this commitment, we also gained momentum in our support to each restaurant. We have strengthened our purchasing power, our training and development capabilities, have developed a specialized computer system for each restaurant, and expanded our marketing horizons.

Let's look specifically at marketing. Given our new size, we will have available in 1984 $5 million to spend in our eight major markets. Of this amount, we have targeted some $4 million for direct media buys in each of these markets. It means that we will have significant penetration through TV, print, radio and billboards on a sustaining basis throughout the year. In conjunction with our advertising agency, Baker Lovick, we have developed five television commercials, 19 radio spots and a variety of different-sized newspaper ads and billboards. The combination of all of these will add significantly to the awareness of what the Keg is – which should lead to a broader base of potential customers.

The theme is basically built around our guarantee and emphasizes the food – steaks, seafood or lighter meals – the 'good times' and the value. The closing line in each commercial states positively that the "Keg's got it!"

Even with the uncertainties that surround the economic conditions throughout Canada, and most particularly B.C., we believe that this extra marketing strength will not only sustain us but will allow us to increase our market share.

Along with strengths, some problems.

It is sometimes easy to highlight only the positive side but I do not believe that we should ignore or bury the problems that exist.

Our number one problem, of course, is to make the acquisitions work. This is particularly so in Ontario. We must not only teach new people our systems and our standards but, more importantly, we have to teach them our values.

In essence, our most important value in the Keg lies in creating an environment where people do better than they expect of themselves – and where enjoyment is an important part of the experience. Getting this message across to people who have been brought up in a different style of organization is not an easy task. Yet, for us to be truly successful, we must get everyone in the same groove.

Also, in 1983 and through 1984, our critical issue is resolving problem restaurants. In 1981 we had only six of what we classified as problem restaurants. This was less than 10% of our total. In 1982 we had eight in this category. Again, less than 10% of the total. However in 1983 the problem stores crept up to 17 which is nearly 20%. We prefer to believe that this is a reflection of the economic times, although some of it undoubtedly relates to problems of management.

Certainly, in most of these restaurants we have very positive feelings. Moreover, we have proven in the past that, with dedication to our standards, problem stores can be brought into line. The classic case in point is in Halifax which was a major problem market for us in 1982. Through dedication to the Keg system the two young operators recorded a $357,000 profit turn-around in 1983 and expect to pay dividends by June of 1984. Even in Seattle which had been a tough market for us we expect strong profitability in 1984.

Certainly, we will have to make tough decisions with respect to some of the markets and, as can be seen in the financial section, these problem markets must be the focus of our attention in 1984.

In the same vein, the other major problem in 1983 was acknowledging our losses in the Chicken and Rib restaurants. Certainly, we can rationalize some of this loss on the failure of our joint venture with the Swiss Chalet. However, I believe the biggest reason for the failure was that it was in a market area in which we had neither the expertise or the organizational attitude to succeed.

But, let's not dwell on the dark side. On balance, our strengths and our new directions far exceed these problems.

You're darn right, the Keg's got it!

In summary, we are excited about the Keg as an organization, the direction we are heading, and what we can accomplish.

- We do know ourselves, what we are capable of, and what we can deliver.

- There is great pride throughout the organization in our collective ability to meet our commitments to every customer, every night.

- We have the muscle – yes, muscle – to communicate this commitment of 'good food – good times and Keg value' – in all major markets.

- *There is no question – the Keg's got it!*

Yes, you could say I am excited about the future – 1983 was a good year, but you *ain't seen nothin' yet!*

George Tidball,
President
Keg Restuarants Ltd.

Financial Review

Over the years I have been asked a number of recurring questions about our performance and our financial position. The main issues include:

- Why is the return on sales so low?
- Are there problems at the restaurant level that do not reflect in the statements?
- How much real debt is there and how does it relate to the equity invested in the business?
- Given the working capital deficit, is the Keg financially sound?

I believe these questions arise principally because of confusion related to our joint venture program which does make our numbers somewhat different from the norm. Accordingly, this year I would like to try to answer these main issues and as a reference the following table has been prepared.

Comparative Performance Analysis

(dollars in thousands)

	1979	1980	1981	1982	**1983**
Sales	$48,264	$65,064	$108,200	$127,391	**$152,623**
Net Income	870	1,205	1,991	1,629	**2,337**
Operating Working Capital[1]	596	193	440	(321)	**1,588**
Corporate Debt[2]	808	1,907	1,728	5,595	**16,747**
Corporate and Indirect Debt[4]	9,135	14,333	17,630	16,595	**30,764**
Equity	3,209	5,098	6,728	9,682	**20,094**
Statistics					
Net Income to Sales	1.8%	1.9%	1.8%	1.3%	**1.5%**
Net Income to Equity[3]	30%	29%	34%	20%	**16%**
Corporate Debt to Equity	1:4	1:2.7	1:3.9	1:1.7	**1:1.2**
Corporate and Indirect Debt to Equity	2.8:1	2.8:1	2.6:1	1.7:1	**1.5:1**

1) Excludes current portion of long-term debt.
2) Includes current portion of long-term debt.
3) Percentage based on average equity outstanding.
4) Corporate debt and the Company's proportionate share of debt in joint ventures, net of current maturity.

Using these numbers, I will now deal with the key questions.

1

Return on Sales

Yes, the return on sales, taken by itself appears low. But to understand these numbers I believe it is important to understand the two facets of our business.

Firstly, we are in the franchise business and in this business we earn fees for the use of the overall Keg system. These are earned on all system sales. Additionally, we earn income through the joint venturing of existing restaurants. In other words, we sell them to the joint venture partners for more than they cost us. To earn these incomes we spend money at the regional level and in corporate support services, i.e.: Marketing, Purchasing, Systems, Training. The sum of these items is what we consider to be our net franchise income.

Secondly, we earn income through investing with operating partners in individual restaurants. In these instances, the operator is responsible for all aspects of the day-to-day operation and we, in fact, assume the position of an investor.

One distortion of these results is that we assume the responsibility of getting restaurants into the profit position prior to involving a partner. Thus, in markets like Seattle where we had been losing money, we pick up 100% of the loss whereas in markets like Edmonton, which is a top earner, we only realize 50% of the profits.

A second distortion is that included in the overall system sales are franchise sales on which we do not earn restaurant income.

Our view, moreover, is that the Keg's success or failure should not be based on its profit as a percentage of sales. Rather that it is more pertinent to assess the company's performance based

on its net income as a percentage of equity employed. This percentage has ranged from 30% in 1979 to 20% in 1982 which was the height of the recession, and to 16% in 1983. The 1983 figures reflect the increase in the equity obtained to finance the two acquisitions, the main benefit of which will not be derived until 1984. I believe that this record of return on equity is a remarkable accomplishment.

I believe the following table depicts the relative importance of these factors.

Corporate Operating Percentages	1981	1982	**1983**
Total System Sales	100.0%	100.0%	**100.0%**
Franchise Fees and Income	5.3	4.6	**4.6**
Franchise Supports Costs	2.1	2.3	**1.6**
Net Franchise Income	3.2	2.3	**3.0**
Share of Restaurant Income	1.0	.7	**.8**
	4.2	3.0	**3.8**
Other Income	–	.2	**.1**
Total Income	4.2	3.2	**3.9**
Corporate Administration	2.1	1.5	**1.6**
Interest	.3	.4	**.4**
	2.4	1.9	**2.0**
Income from Operations	1.8	1.3	**1.9**
Income Taxes	–	–	**.4**
Net Income Before Extraordinary Items	1.8	1.3	**1.5**

2

Problem Restaurants
We reflect all profits and losses at the restaurant level in the corporate income statements with the exception of entirely new concepts and certain costs incurred in acquired restaurants prior to their conversion. The income statements for 1983 reflect $1.7 million in pre-tax losses in what we consider problem stores.

3

How Much Debt
As shown on the comparative analysis, our corporate debt to equity has ranged from 1:4 in 1979 to 1:1 in 1983. However, when you include the indirect debt, the total debt to equity ratio ranges from a high of 2.8:1 in 1979 to a low of 1.5:1 in 1983. We believe that even including this indirect debt, the company is conservatively financed. This is particularly true as a certain amount of the current debt relates to acquired assets that have been designated for sale. Thus, when these sales are completed we expect the total corporate and indirect debt to be closer to a ratio of 1:1 than the current ratio of 1.5:1.

4

Working Capital Deficit
Through defining true operating working capital, i.e.: the normally classified working capital position reduced by the current portion of long-term debt, it can be seen that, except for 1982, we are in a very positive operating position. In addition, it must be remembered that in the individual restaurants, because they collect cash daily then distribute and otherwise utilize this cash while paying their bills on an average of 21 days, a working capital deficit is a normal part of their business.

I sincerely hope that this will help clarify the company's financial performance.

George Tidball,
President
Keg Restaurants Ltd.

Consolidated Financial Statements

Consolidated Balance Sheet As at December 31, 1983

Assets	1983	1982
Current Assets		
Advances and accounts receivable		
Shareholders and their related companies	**$ 425,330**	$ 23,704
Joint ventures	**1,022,922**	1,506,235
Franchises	**400,612**	238,076
Others	**538,741**	214,720
Current maturity of notes receivable	**297,914**	363,223
Inventories (note 7)	**951,739**	942,625
Prepaid expenses	**127,009**	98,540
	3,764,267	3,387,123
Notes Receivable, net of current maturity		
Shareholders and their related companies	**196,786**	218,876
Other	**334,055**	253,158
	530,841	472,034
Investments (note 4)	**31,975,489**	12,746,225
Property, Plant and Equipment		
Land and buildings	**1,628,053**	1,661,677
Leasehold improvements	—	10,479
Equipment and furnishings	**331,919**	209,887
	1,959,972	1,882,043
Less accumulated depreciation and amortization	**155,972**	79,157
	1,804,000	1,802,886
Deferred Charges		
Net of accumulated amortization	**943,256**	577,443
	$39,017,853	$18,985,711

Approved by the Directors

Director Director

Liabilities

	1983	1982
Current Liabilities		
Bank indebtedness (note 5)	**$ 898,646**	$ 2,626,122
Accounts payable and accrued liabilities	**1,219,128**	921,368
Current maturity of long term debt (note 6)	**3,127,479**	1,985,315
Unearned revenue	**58,378**	160,970
	5,303,631	5,693,775
Long Term Debt, net of current maturity (note 6)	**13,619,783**	3,609,746

Shareholders Equity

Capital Stock (note 8)	**16,780,747**	4,131,495
Retained Earnings	**6,635,229**	6,274,535
	23,415,976	10,406,030
Deduct Cost of Shares Owned by the company (note 8)	**3,321,537**	723,840
	20,094,439	9,682,190
	$39,017,853	$18,985,711

Contingent liabilities (note 4)
Commitments (note 10)

Auditors' Report

To the Shareholders of
Keg Restaurants Ltd.

We have examined the consolidated balance sheet of Keg Restaurants Ltd. as at December 31, 1983 and consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada
March 30, 1984

Thorne Riddell
Chartered Accountants

Consolidated Statement of Income   Year ended December 31, 1983

	1983	1982
Total restaurant sales		
Joint ventures	**$107,519,937**	$107,765,674
Wholly-owned	**24,936,908**	8,395,272
Franchises	**20,165,788**	11,230,414
	$152,622,633	$127,391,360
Share of restaurant income		
Joint venture restaurant income	**$ 1,947,795**	$ 2,265,429
Less share of restaurant income allocated to joint venture partners	**933,363**	1,194,160
	1,014,432	1,071,269
Wholly-owned restaurant income (loss)	**211,252**	(239,701)
Keg share of restaurant income	**1,225,684**	831,568
Services fees from restaurants	**5,885,049**	5,181,772
Gain on sale of joint ventures	**938,229**	394,729
	8,048,962	6,408,069
Administration		
Corporate expenses, net of recoveries	**4,593,203**	4,518,732
Interest, including interest on long-term debt of $543,813 (1982 - $479,323)	**660,330**	533,015
Other income	**(113,212)**	(234,165)
	5,140,321	4,817,582
Income before income taxes and extraordinary item	**2,908,641**	1,590,487
Income taxes (benefit)	**571,351**	(38,823)
Income before extraordinary item	**2,337,290**	1,629,310
Extraordinary item net of income taxes (note 13)	**898,560**	—
Net Income	**$ 1,438,730**	$ 1,629,310
Earnings per common share and class A non-voting share before extraordinary item (note 12)	**$ .46**	$ .47
Earnings per common share and class A non-voting share (note 12)	**$ .28**	$ .47

Consolidated Statements of Retained Earnings   Year ended December 31, 1983

	1983	1982
Balance at beginning of year	**$6,274,535**	$5,478,355
Net income	**1,438,730**	1,629,310
	7,713,265	7,107,665
Premium on redemption and cancellation of first preference shares	—	89,000
Costs relating to the issue and reorganization of share capital net of income tax benefit of $154,352 (1982 - $214,674)	**137,430**	193,944
Dividends	**940,606**	550,186
Balance at end of year	**$6,635,229**	$6,274,535

	1983	1982
Sources of cash		
Cash generated from continuing operations	**$ 1,343,751**	$1,484,658
Cash generated from (used for) operating working capital		
Advances and accounts receivable	**(404,870)**	159,819
Inventories	**(9,114)**	(550,208)
Prepaid expenses	**(28,469)**	45,390
Accounts payable and accrued liabilities	**297,760**	173,707
Unearned revenue	**(102,592)**	16,231
Net cash generated from operations	**1,096,466**	1,329,597
Other sources of cash		
Increase in long term debt	**12,433,636**	4,150,752
Issue of capital stock, net of cost to issue	**4,675,992**	1,980,182
Decrease in notes receivable	**529,677**	252,864
Proceeds from sale of investments	**377,500**	321,914
Employee stock purchase plan	**27,200**	294,400
Cash available for financing and investing activities	**19,140,471**	8,329,709
Uses of cash		
Cash committed to financing activities		
Decrease in long term debt	**1,281,435**	283,810
Repurchase of shares	**2,597,697**	400,000
Cash dividends	**782,984**	550,186
Increase in notes receivable	**523,175**	235,875
Cash invested in future operations		
Investments including acquisitions	**11,773,483**	6,169,618
Deferred charges	**365,813**	117,633
Fixed assets	**88,408**	1,455,858
Cash used for financing and investing activities	**17,412,995**	9,212,980
Increase (decrease) in bank indebtedness	**(1,727,476)**	883,271
Bank indebtedness at beginning of year	**2,626,122**	1,742,851
Bank indebtedness at end of year	**$ 898,646**	$2,626,122

1. Significant Accounting Policies

(a) Principles of consolidation
These financial statements include the accounts of the Company and its subsidiaries.
In order to provide more consistent and meaningful information the Company accounts for its restaurant and real estate subsidiaries on the equity method. Accordingly these investments are included in the consolidated balance sheet as investments accounted for on the equity method. Results from these operations are included on an after-tax basis in the consolidated statement of income as income from wholly-owned operations.

(b) Inventories
Inventories are stated at the lower of average or replacement cost and net realizable value.

(c) Investments in joint ventures
The Company accounts for its investments in joint ventures (both incorporated and unincorporated) on the equity basis. The Company's share of the joint ventures' net income on an after-tax basis is included as a separate item on the consolidated statement of income.

(d) Restaurant operations
Where the Company has acquired restaurant operations, the purchase price is allocated firstly to tangible assets with any balance attributed to goodwill. Equipment and furnishings are depreciated over a ten-year period with leasehold improvements and goodwill being amortized on a straight-line basis over the terms of the leases plus renewal options, to a maximum of twenty years.
Certain costs incurred by restaurants prior to opening are deferred and amortized on a straight-line basis over a five-year period from the date of commencement of operations. These costs would include advertising, training and site investigation.
Costs incurred by new concept restaurants during the first year of establishing the new concept are deferred and amortized on a straight-line basis over five years or will be charged to income of the period in which it is determined that there will not be sufficient recovery from future operations. These costs include market developing and operating losses.

(e) Property, plant and equipment
Property, plant and equipment are recorded at cost. Depreciation is calculated on a straight-line basis over twenty years for buildings and over ten years for equipment and furnishings. Leasehold improvements are amortized on a straight-line basis over the terms of the leases plus renewal options, to a maximum of twenty years.

(f) Translation of foreign currencies
Monetary assets and liabilities of the Company's U.S. subsidiary are translated at the year end rate of exchange. Non-monetary assets and liabilities are translated at the average exchange rate during the year of acquisition. Income accounts are translated at the average exchange rate for the year. Gains and losses resulting from these translation policies are recorded in the consolidated statement of income.

(g) Statement of Changes in Financial Position
The definition of funds has changed from the working capital basis to the cash basis.

2. Business Acquisitions

(a) Crock & Block — Effective July 29, 1983 the company acquired 16 restaurant operations located in the Province of Ontario and 50% of the outstanding shares in a company which has an interest in the real estate and leasehold improvements associated with 12 of the restaurants. The transaction has been accounted for on the purchase method with the results of operations included in these financial statements from the date of acquisition. Details of the net assets acquired are as follows:

Fixed assets	$9,075,000
Long term debt	2,625,000
Net assets included in investment account	$6,450,000

The consideration given at fair value is as follows:

Cash	$4,325,000
Issue of 250,000 class A non-voting shares	1,125,000
Issue of 10% convertible note (see note 6(d))	1,000,000
	$6,450,000

2. Business Acquisitions *(Continued)*

(b) Controlled Foods International Ltd. — Effective September 29, 1983 the company acquired 97.5% of the outstanding shares of Controlled Foods International Ltd. which owns and operates approximately eighty restaurants across Canada. The transaction has been accounted for on the purchase method with the results of operations included in these financial statements from date of acquisition. Details of the net assets acquired are as follows:

Current assets	$1,554,000	
Fixed assets	16,685,000	
Other assets	69,000	
		$18,308,000
Current liabilities	5,623,000	
Long term debt	4,392,000	
Deferred income taxes	238,000	
		10,253,000
Net assets included in investment account		$ 8,055,000

The consideration given at fair value is as follows:	
Cash	$ 3,969,000
Issue of 1,484,569 class A non-voting shares at a value of $4.50 per share	6,681,000
	10,650,000
Less: 576,666 class A non-voting shares received as consideration for the sale of certain assets	2,595,000
	$ 8,055,000

The shares received as consideration on the sale of certain assets are reflected in the consolidated financial statements as shares held by the company.

(c) The allocation of the purchase price of these acquisitions is based on whether the company intends to convert, sell or retain the assets. In the case of the restaurants to be converted any losses incurred since acquisition have been capitalized and will be treated as conversion costs and will be amortized in accordance with note 1(d). In the case of restaurants to be sold any losses incurred have been capitalized. In both cases the allocation of the purchase price has taken into consideration the fair market value of the asset allowing for the carrying costs including capitalized losses and disposition costs. The results from units to be retained are reflected in the financial results since acquisition date.

3. Related Party Transactions

The following related party transactions and balances are recorded in the accounts:

(a) Advances and notes receivable from shareholders and their related companies

Advances receivable	$425,330
Notes receivable, net of current maturity	$196,786

The advances are non-interest bearing and have no fixed terms of repayment. The notes receivable are non-interest bearing and consist of a loan of $40,000 repayable in annual instalments of $2,000, a loan of $60,000 repayable in annual instalments of $20,000 and a loan of $96,786 due in 1985.

(b) Service, licence and financial fees earned.	Service fees	Licence fees	Financial fees
Joint ventures	$ 4,001,701	$ 17,036	$ 199,550
Wholly-owned restaurants	1,196,306	—	—
Franchises	687,042	—	—
	$ 5,885,049	$ 17,036	$ 199,550

4. Investments

	1983	1982
Investments comprise:		
Restaurant operations, at equity		
Joint ventures	**$ 6,571,691**	$ 5,195,498
Wholly-owned	**18,508,043**	4,030,685
Other joint ventures and real estate subsidiaries, at equity	**6,433,723**	3,378,232
Other, at cost	**462,032**	141,810
	$31,975,489	$12,746,225

The company's proportionate interest in restaurant and real estate joint ventures and subsidiaries is as follows:

	Restaurants	Real Estate	Total
Current assets	$ 4,657,956	$ 270,404	$ 4,928,360
Fixed assets	37,552,690	13,627,046	51,179,736
Other assets	6,775,705	104,871	6,880,576
	$48,986,351	$14,002,321	$62,988,672
Current liabilities	$14,006,907	$ 323,856	$14,330,763
Long term debt	9,899,710	7,244,742	17,144,452
Equity in net assets, being carrying value	25,079,734	6,433,723	31,513,457
	$48,986,351	$14,002,321	$62,988,672
Revenue	$77,926,761	$ 409,894	$78,336,655
Net income	$ 1,225,684	$ (77,341)	$ 1,148,343

In addition, the company is contingently liable in respect of joint venture and subsidiary borrowings as follows:

(i) as guarantor of restaurant loans to the extent of $13,939,297, a portion of which is included in the proportionate share of liabilities above, and

(ii) as a party to the loan agreeement relating to the Old Spaghetti Factory joint venture companies, the principal amount outstanding at December 31, 1983 being $5,269,708. To facilitate this borrowing the loan was made in the name of the Company and the Company, in turn, entered into an agreement with The Old Spaghetti Factory joint ventures companies whereby they each assumed their proportionate share of the debt. While the Company is the primary borrower, for financial statement purposes, this loan is disclosed herein as a contingent liability rather than a direct liability on the balance sheet, in order to more consistently present the financial position as it relates to the Company's liabilities under the terms of the various joint venture financing arrangements. Under the terms of the loan agreement the Company has pledged certain of its assets as security. In addition, a wholly-owned subsidiary of the Company has pledged certain of its real estate as security.

The Company's proportionate share of this debt is $2,634,854 and is included in the proportionate share of liabilities above.

The loan agreement provides for an early maturity bonus payment, which, based on present conditions, is likely to become payable in 1988. The amount of the bonus is not determinable until some time in the future. The amount of this early maturity bonus payment will be proportionately shared by The Old Spaghetti Factory joint venture companies.

(iii) as guarantor of real estate loans to the extent of $3,220,000, a portion of which is included in the proportionate share of liabilities above.

5. Bank Indebtedness

Bank indebtedness is secured by a general assignment of book debts and a floating charge demand debenture and a fixed charge on certain real estate.

6. Long Term Debt

	1983	1982
Long term debt comprises:		
Debentures	**$ 8,793,925**	$ 737,121
Mortgage	**624,000**	720,000
Term bank loans	**4,811,665**	2,516,695
Promissory notes	**2,027,500**	1,036,000
Agreements	**490,172**	585,245
	16,747,262	5,595,061
Current maturity	**3,127,479**	1,985,315
	$13,619,783	$3,609,746

(a) Debentures
Of these debentures, $793,925 bears interest at prime rate plus 2% and mature October 15, 1985. This debt is secured by a fixed charge on the Company's investment in the various joint venture and subsidiary companies and by a floating charge on all other non-current property and assets of the Company.

The balance of $8,000,000 represents a series of 11% convertible, subordinated debentures. These debentures are convertible into class A non-voting shares at a conversion price of $6 per share until July 29, 1988 and at $6.50 per share thereafter until maturity. The Company, at its option, at any time after July 29, 1988, may redeem these debentures at premiums ranging from 10% in the year ended July 29, 1989 reducing at 2½% per annum to maturity date at July 29, 1993. These debentures are unsecured and subordinate to all indebtedness of the company other than indebtedness or liability to creditors for accounts payable in the ordinary course of business.

(b) Mortgage
The mortgage bears interest at prime rate plus 2% and is secured by land, building and restaurant assets located in Tacoma, Washington.

(c) Term bank loans
These loans bear interest at prime rate plus 1% to 1½% and are secured by a general assignment of book debts, a floating charge demand debenture and a fixed charge on real estate.

(d) Promissory notes
These notes bear interest at rates from 10% to prime rate plus ½% and maturing at various dates to 1987. One of these notes is secured by land and a building located in Montreal, Quebec. A second note bears interest at 10% and is convertible into Class A non-voting shares at a conversion price of $6 per share until July 29, 1985. If the conversion option is not exercised the debt becomes payable in three equal annual instalments bearing interest at prime rate plus 1%.

(e) Agreements
$213,730 of these agreements are non-interest bearing, the remainder bear interest at prime rate plus 2% to 15%. The agreements mature at various dates to 1985.

(f) Principal repayments
The minimum principal payment on long term debt for the next five years are as follows:

1984	$3,127,479
1985	3,547,954
1986	873,922
1987	1,197,834
1988	—

7. Inventories

	1983	1982
Inventories consist of:		
Real estate held for sale	**$ 709,913**	$ 701,968
Other	**241,826**	240,657
	$ 951,739	$ 942,625

8. Capital Stock

	1983	1982
The Company's issued capital stock comprises:		
895,093 common shares, net of employee stock purchase plan	**$ 528,642**	$ 526,574
6,748,961 class A non-voting shares, net employee stock purchase plan	**16,252,105**	3,604,921
	$16,780,747	4,131,495

Common shares and class A non-voting shares

During the year the authorized share capital was increased to 15,000,000 no par value common shares and 15,000,000 class A non-voting shares.

The common shares and class A non-voting share transactions during 1983 were as follows:

Common Shares	Number of Shares	Amount
Balance December 31, 1982	914,019	$ 526,574
Payments received under the employee stock purchase plan	—	11,528
Converted to class A non-voting shares	(18,926)	(9,460)
	895,093	$ 528,642
Deduct shares owned by the Company	125,936	
	769,157	

Class A non-voting shares	Number of Shares	Amount
Balance December 31, 1982	3,342,109	$ 3,604,921
Issued		
Converted from common	18,926	9,460
Pursuant to private placement	1,344,000	4,656,400
Acquisitions (note 2)	1,734,569	7,808,630
Conversions of warrants	100	400
Stock dividend	49,257	157,622
Shares issued and payments received under the employees' stock purchase plan	260,000	14,672
	6,748,961	$16,252,105
Deduct shares owned by the Company	939,482	
	5,809,479	

Of the Class A shares issued during the year 260,000 were issued pursuant to the employees' stock purchase plan for non-interest bearing notes receivable totalling $972,400 which are deducted from share capital for financial statement purposes.

The total amount now outstanding under the employees' stock purchase plan is $1,060,800 and is repayable as follows:		
	1984	$ 235,280
	1985	242,080
	1986	194,480
	1987	194,480
	1988	194,480
		$1,060,800

9. Income Taxes

At December 31, 1983 a U.S. subsidiary of the Company has the following loss carry-forwards available to reduce future years' income for tax purposes, the tax benefit of which have not been recorded in the accounts. These losses expire in the following years:

1993	$ 5,860
1994	196,818
1995	231,054

10. Commitments

The Company, its subsidiaries and joint ventures have lease commitments which expire in one to twenty-five years. The approximate aggregate annual rentals payable over the next five years on these leases, excluding additional payments based on sales, will be as follows:

1984	$4,794,671
1985	4,600,307
1986	4,071,017
1987	3,605,521
1988	3,392,230

11. Regional Operations

The following table summarizes the Company's operations on a regional basis:

1983 *(stated in $000's)*

	British Columbia	Alberta	Midwest	Eastern	United States	South Pacific	Total
Sales	$53,396	$25,374	$13,597	$47,969	$9,491	$2,796	$152,623
Franchise sales	12,114	—	4,242	1,014	—	2,796	20,166
	$41,282	$25,374	$ 9,355	$46,955	$9,491	$ —	$132,457
Net income	$ 854	$ 868	$ 266	$ 392	$ (221)	$ —	$ 2,159
Keg share thereof	$ 442	$ 556	$ 134	$ 244	$ (150)	$ —	$ 1,226
Head office							
Service fees from restaurants, net of administration expenses							798
Other income							885
Income before income taxes and extraordinary item							$ 2,909
Investment carrying value	$ 4,885	$ 4,480	$ 780	$12,648	$2,287	$ —	$ 25,080

1982 *(stated in $000's)*

	British Columbia	Alberta	Midwest	Eastern	United States	South Pacific	Total
Sales	$49,309	$17,484	$16,198	$33,072	$8,091	$3,238	$127,392
Franchise sales	5,418	—	5,812	—	—	—	11,230
	$43,891	$17,484	$10,386	$33,072	$8,091	$3,238	$116,162
Net income	$ 405	$ 1,166	$ 524	$ (167)	$ 149	$ (52)	$ 2,025
Keg share thereof	$ 160	$ 614	$ 244	$ (137)	$ (23)	$ (26)	$ 832
Head office							
Service fees from restaurants, net of administration expenses							130
Other income							628
Income before income taxes and extraordinary item							$ 1,590
Investment carrying value	$ 3,656	$ 384	$ 646	$ 2,417	$2,090	$ 33	$ 9,226

12. Earnings Per Share

The earnings per share figures are calculated using the weighted monthly average number of shares outstanding. If it were assumed that the convertible debentures and the share purchase warrants outstanding at December 31, 1983 had been converted into class A non-voting shares as of January 1, 1983, the fully diluted earnings per share for 1983 would have been:

Income before extraordinary item	$.41
Net income for the year	$.26

13. Extraordinary Item

During the year the company abandoned new restaurant concepts which had been developed over a period of two years. This amount recognizes development costs and operating losses deferred during the development period net of the income tax recovery of $330,828 related thereto.

14. Comparative Figures

Certain 1982 financial statement items have been reclassified to conform with the presentation adopted for 1983.

15. Supplementary Information

Condensed financial statements prepared on a consolidated basis including the Company's proportionate share of assets and liabilities of its investees are as follows:

	Restaurants	Real Estate	Total
Current assets	$ 7,770,936	$ 980,317	$ 8,751,253
Notes receivable	473,341	—	473,341
Investments	462,021	—	462,021
Fixed assets	37,728,715	15,255,099	52,983,814
Other assets	7,718,961	104,871	7,823,832
	$54,153,974	$16,340,287	$70,494,261
Current liabilities	$18,036,133	$ 1,599,454	$19,635,587
Long term debt	19,983,919	10,780,316	30,764,235
Equity in net assets, being carrying value	16,133,922	3,960,517	20,094,439
	$54,153,974	$16,340,287	$70,494,261

Keg Restaurants Ltd.

Directors	David Aisenstat *Executive Vice President, Hy's of Canada* David W. Betts *President, Betts Electric Ltd.* J. W. Bradley Bond *Vice President, Ontario, Keg Restaurants* Harold P. Capozzi *President, Capozzi Enterprises Ltd.* Arthur H. Crockett *Corporate Director and Financial Consultant, Bank of Nova Scotia* Winton Derby *Senior Partner, Shrum, Liddle & Hebenton* Hilary L. Goheen *Senior Vice President, Keg Restaurants Ltd.* Maxwell Goldhar *Chairman, Revenue Properties Company Ltd.* J. Boyd Matchett *President, Cara Operations Limited* George M. Tidball *President and Chairman of the Board, Keg Restaurants Ltd.*
Officers	George M. Tidball *President and Chairman of the Board* Hilary L. Goheen *Senior Vice President* Robert R. Roe *Vice President, Finance and Administration* L. Bruce Benda *Officer and Consultant* Dunc Holmes *Vice President, Communications* Alan Kucharski *Vice President, Operations* Kurt Landert *Vice President, Food Services* Eugene Ruelle *Vice President, Training and Development* Bruce Schmidt *Vice President, Marketing* Terry Thompson *Secretary* Carole Edgar *Corporate Controller*
Registrar and Transfer Agent	National Trust Company Limited, Vancouver, B.C.
Auditors	Thorne Riddell, Chartered Accountants, Vancouver, B.C.
Solicitors	Shrum, Liddle & Hebenton, Vancouver, B.C.

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